

Message Text

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ACTION EB-08

INFO OCT-01 AF-10 ISO-00 AGRE-00 IO-14 L-03 AID-05
CIAE-00 COME-00 FRB-01 INR-10 NSAE-00 USIA-15
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R 160915Z FEB 78
FM AMEMBASSY ABIDJAN
TO DEPT OF TREASURY WASHDC
AMEMBASSY DAR ES SALAAM
INFO SECSTATE WASHDC 7420

UNCLAS SECTION 1 OF 2 ABIDJAN 1585

DEPT PASS NAC AGENCIES

E.O. 11652: N/A
TAGS: AFDF, EAID, EFIN
SUBJECT: PROPOSED AFRICAN DEVELOPMENT FUND LOAN TO FINANCE
TANZANIA DAKAWA RICE PROJECT

SUMMARY: AFDF MANAGEMENT PROPOSES 5.2 MILLION FUND UNIT OF ACCOUNT (FUA EQUAL TO US \$1.11) LOAN TO GOVERNMENT OF THE UNITED REPUBLIC OF TANZANIA TO FINANCE A PORTION OF PROJECT DESIGNED TO DEVELOP 1,740 HA OF IRRIGATED RICE, INCLUDING A MILLING COMPLEX AND INFRA-STRUCTURAL DEVELOPMENT ON THE MILL COMPOUND AND ALSO THE DEVELOPMENT OF 980 HA OF SORGHUM. TOTAL COST OF PROJECT ESTIMATED AT 10.5 MILLION FUA TO BE COFINANCED WITH TANZANIAN INVESTMENT BANK (2.74 MILLION FUA) AND GOT (2.58 MILLION FUA). END SUMMARY.

1. AFDF DOCUMENT BD-78/15 AND ATTACHMENTS DESCRIBING LOAN POUCHED TO NAC AGENCIES FEB 10. BOARD CONSIDERATION SCHEDULED FOR FEB 28, 1978. REQUEST AMEMBASSY DAR ES SALAAM CABLE ANY VIEWS TO ASSIST NATIONAL ADVISORY COUNCIL DELIBERATIONS ON U.S. BOARD POSITION.

2. AFDF MANAGEMENT PROPOSES 5.2 MILLION FUA LOAN TO GOT TO
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FINANCE 49 PERCENT OF COST OF PROJECT TO DEVELOP 1,740 HA OF IRRIGATED RICE, 980 HA OF SORGHUM, AND A RICE MILL WITH A CAPACITY OF 10,000 TONS PER YEAR. PROJECT COMPONENTS INCLUDE A) LAND DEVELOPMENT INVOLVING LAND LEVELLING, CONSTRUCTION OF FLOOD PROTECTION DIKES, DRAINAGE SYSTEM, IRRIGATION CANALS, ROADS, AND OTHER HYDRO-AGRICULTURAL STRUCTURES, (3.25 MILLION FUA); B) CONSTRUCTION AND INSTALLATION OF A 10,000 TON PER YEAR RICE MILL

AND THREE STORES FOR PADDY, ONE STORE FOR MILLED RICE, AND INFRA-STRUCTURAL WORKS ON MILLING COMPOUND-DRAINAGE, ROADS, ETC. (1.46 MILLION FUA); C) CONSULTING ENGINEERING SERVICES TO SUPERVISE THE IMPLEMENTATION OF THE IRRIGATION SYSTEM AND CONSTRUCTION AND EQUIPPING OF THE MILL (340 THOUSAND FUA); D) CONSTRUCTION OF 30 STAFF HOUSES, 2 OFFICES, ONE WORKSHOP, TWO STORES, A SOCIAL HALL AND SHOP, DISPENSARY, AND THE PROVISION OF NECESSARY FURNITURE (490 THOUSAND FUA). THE ABOVE LISTED COMPONENTS WILL BE FINANCED BY THE AFDF LOAN. THE GOT AND THE TANZANIAN INVESTMENT BANK (TIB) WILL FINANCE THE FOLLOWING COMPONENTS A) PROVISION OF LOCAL COSTS OF SIX NORTH KOREAN TECHNICAL ASSISTANCE PERSONNEL, (20 THOUSAND FUA); B) CLEARING OF 2,000 HA OF LAND (900 THOUSAND FUA); C) ACQUISITION AND INSTALLATION OF FIVE WATER PUMPS (1 MILLION FUA); AND THE ACQUISITION OF AGRICULTURAL MACHINERY AND EQUIPMENT, (1.38 MILLION FUA). TOTAL COST OF PROJECT EQUAL TO 10.5 MILLION FUA, OF WHICH 3.69 IS IN FORM OF LOCAL COSTS. ESTIMATES INCLUDE FIVE PERCENT ALLOWANCE FOR PHYSICAL CONTINGENCIES, TEN PERCENT FOR PRICE ESCALATION. AFDF LOAN TO MEET 1.06 MILLION FUA IN LOCAL COSTS. TIB TO PROVIDE TOTAL OF 2.74 MILLION OF WHICH 530 THOUSAND FUA IS FOR LOCAL COSTS; GOT TO PROVIDE 2.58 MILLION OF WHICH 2.10 MILLION FUA IS FOR LOCAL COSTS. AFDF LOAN TO BE ON LENT TO EXECUTING AGENCY ESTABLISHED BY THE GOVERNMENT, AT INTEREST RATE NOT LESS THAN FOUR PERCENT OVER AFDF SERVICE CHARGE, 30 YEARS AMORTIZATION INCLUDING TEN YEARS GRACE. AFDF LOAN TO BE DISBURSED OVER FOUR YEAR PERIOD. GOT TO MEET ANY COST OVERRUNS. PROCUREMENT OF GOODS AND SERVICES TO BE IN ACCORDANCE WITH STANDARD AFDF INTERNATIONAL UNCLASSIFIED

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BID PROCEDURES, EXCEPT CONSTRUCTION OF BUILDINGS AND HOUSES AND PROCEDURES, EXCEPT CONSTRUCTION OF BUILDINGS AND HOUSES AND PROCUREMENT OF FARM EQUIPMENT RECOMMENDED FOR LOCAL COMPETITIVE BIDDING. THERE ARE SUFFICIENT LOCAL ENTERPRISES TO ENSURE THAT COMPETITIVE PRICE WILL BE OBTAINED. PROPOSED TERMS OF AFDF LOAN, FIFTY YEARS AMORTIZATION, INCLUDING TEN YEARS GRACE, 0.75 PERCENT SERVICE CHARGE. GOT TO BE BORROWER, SUBSIDIARY AGENCY OF THE NATIONAL FOOD AND AGRICULTURAL CORPORATION TO BE ESTABLISHED TO ACT AS EXECUTING AGENCY.

3. THE PROJECT WHICH WAS IDENTIFIED WITH THE ASSISTANCE OF FAO IS LOCATED IN DAKAWA, A SMALL TOWN SITUATED NEAR MOROGORO IN THE MOROGORO DISTRICT. IT IS APPROXIMATELY 245 KM FROM DAR ES SALAAM LYING NORTH OF THE WAMI RIVER WHICH WILL PROVIDE IRRIGATION WATER FOR THE PROJECT. TOTAL POPULATION OF DAKAWA IS ESTIMATED AT 5,000 INHABITANTS. DAKAWA IS A SMALL AGRICULTURAL MARKETING AND SERVICE CENTER WITH MOST OF THE REGIONAL INHABITANTS ENGAGED IN SMALL HOLDER FARMING OF RICE, SORGHUM, SUNFLOWER AND MAIZE.

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DEPT PASS NAC AGENCIES

4. THE APPRAISAL REPORT INDICATES THAT RICE IS ONE OF THE MAIN STAPLE FOODS IN THE COUNTRY AND THAT RICE IMPORTS CONTINUE TO INCREASE EACH YEAR, FURTHER AGGRAVATING THE ALREADY SERIOUS BALANCE OF PAYMENTS PROBLEMS. CONSUMPTION OF RICE IN 1975/76 WAS ESTIMATED AT 180 THOUSAND TONS. IN 1975, THE COUNTRY HAD TO IMPORT 34,000 TONS. WITH AN URBAN GROWTH RATE OF SEVEN PERCENT PER ANNUM, RICE DEMAND IS EXPECTED TO CONTINUE TO INCREASE. PROJECTIONS PLACE THE 1980 DEMAND AT 234 THOUSAND TONS. THE DEMAND FOR SORGHUM AND MILLET IS EXPECTED TO APPROACH 429 THOUSAND TONS BY 1980.

5. BETWEEN 1967 AND 1973, AGRICULTURAL OUTPUT INCREASED AT A RATE OF 2.7 PERCENT, BARELY KEEPING PACE WITH THE RATE OF GROWTH OF THE POPULATION. BETWEEN 1972 AND 1974, THE PRODUCTION OF MAIZE AND OTHER BASIC STAPLES DECLINED BY OVER TWO PERCENT: WITH PADDY AND WHEAT SUFFERING EVEN SHARPER DECLINES IN OUTPUT. THIS DECLINE WAS DUE LARGELY TO DROUGHT AND ALSO TO THE GOVERNMENT'S "VILLAGISATION" PROGRAM WHICH CAUSED LARGE SEGMENTS OF THE RURAL POPULATION TO BE MOVED FROM ONE AREA TO ANOTHER; RESULTING IN A NEED TO ADJUST TO A NEW ENVIRONMENT. THE GOVERNMENT'S APPROACH TO AGRICULTURAL DEVELOPMENT INCLUDES THE GROUPING OF INDIVIDUAL FARMERS, TRADITIONALLY UNCLASSIFIED

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SCATTERED OVER THE RURAL AREAS, INTO REGISTERED VILLAGES OF ABOUT 250 FAMILIES EACH. EACH FAMILY OWNS ITS MEANS OF PRODUCTION, BE IT AGRICULTURE OR LIVESTOCK. ANOTHER FACET OF THE GOVERNMENT'S

AGRICULTURAL DEVELOPMENT SCHEME INCLUDES THE ESTABLISHMENT OF LARGE FARMS RUN BY INDEPENDENT GOVERNMENTAL AGENCIES.

6. THE AFDF SPONSORED PROJECT WILL BE UNDER THE GENERAL MANAGEMENT OF NATIONAL AGRICULTURAL FOOD COOPERATION (NAFCO) WHICH OPERATES LARGE SCALE MECHANIZED FARMS. NAFCO WAS ESTABLISHED BY THE GOVERNMENT IN 1969 TO DEVELOP AGRICULTURAL FOOD PRODUCTION PROJECTS AND ITS ACTIVITIES ALSO INCLUDE DIRECT PRODUCTION. NAFCO IS A HOLDING COMPANY WITH ABOUT SIXTEEN SUBSIDIARIES, TWO OF WHICH ARE ENGAGED IN THE SUCCESSFUL OPERATION OF LARGE RICE FARMS AT RUVU AND MBARALI. THE DAKAWA PROJECT WILL BE IMPLEMENTED AND DIRECTLY MANAGED BY A SIMILAR SUBSIDIARY OF NAFCO WHICH WILL BE CREATED FOR THE PURPOSE.

7. PRODUCTION UNDER THE PROJECT IS EXPECTED TO EQUAL 1,190 TONS OF PADDY AND 880 TONS SORGHUM IN YEAR THREE OF THE PROJECT, RISING TO A FIGURE OF 8,700 TONS PADDY AND 2,940 TONS SORGHUM AT FULL DEVELOPMENT IN YEAR EIGHT, REMAINING CONSTANT THEREAFTER. PADDY PRODUCED BY THE PROJECT WILL BE MILLED AT THE RICE MILL CONSTRUCTED UNDER THE PROJECT. RICE MILLED UNDER THE PROJECT WILL BE PURCHASED BY THE NATIONAL MILLING COMPANY AND DISTRIBUTED THROUGH ITS WHOLESALE AND RETAIL CHANNELS. BRAN WILL BE PURCHASED BY ANOTHER GOVERNMENT DISTRIBUTION MECHANISM AND WILL THEN BE SOLD LOCALLY FOR LIVESTOCK FEED. SORGHUM WILL BE DISTRIBUTED BY A THIRD MECHANISM. PRICES IN THE AGRICULTURAL SECTOR ARE FIXED. WHOLESALE PRICE OF RICE FOR 1977/78 IS FUA 0.36 PER KILO COMPARED WITH THE IMPORT PARITY PRICE OF FUA 0.40. RETAIL PRICE AT PRESENT IS ABOUT FUA 0.38 PER KILO. THE PROJECT REPORT INDICATED THE NEED FOR A CONSTANT PRICE REVIEW TO ENABLE REALISTIC PRICES TO BE ESTABLISHED, AND INDICATES THAT FUND MANAGEMENT WILL OBTAIN ASSURANCES TO THIS

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EFFECT.

8. CURRENT PRICES WERE USED IN THE FINANCIAL ANALYSIS WHICH INDICATES A FINANCIAL RATE OF RETURN OF SIX PERCENT. THE PROJECT STARTS EARNING POSITIVE RETURNS FROM YEAR SEVEN. BECAUSE OF REPLACEMENT OF MACHINERY AND VEHICLES, HOWEVER, THERE ARE SOME PERIODS OF NEGATIVE INTERRUPTION. PROJECT EXPECTED TO AVOID CURRENT 5,000 TON ANNUAL RICE IMPORTS. PROJECT TO CREATE 170 PERMANENT JOBS AND 230 SEASONAL JOBS. ECONOMIC RATE OF RETURN IS NINE PERCENT. FOREIGN EXCHANGE AND LABOR SHADOW PRICING BRINGS RETURN TO TEN PERCENT. TWENTY PERCENT INCREASE IN COST DROPS RETURN TO SIX PERCENT; TWENTY PERCENT DECREASE IN BENEFITS DROPS RETURN TO FIVE PERCENT. SUBSEQUENT ONE YEAR DELAY IN PROJECT IMPLEMENTATION WITH TWENTY PERCENT INCREASE IN COSTS BRINGS RETURN TO FOUR PERCENT.

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